Equity | Egypt | Telecommunications

28 July 2011

Mobinil

2Q11 results

Buy

Target price
E£124.00 (from E£172.02)

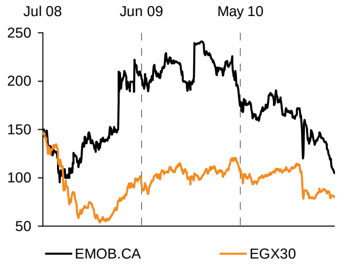
Price
E£104.95

Short term (0-60 days)
n/a

Sector view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (E£)	134.9	148.3	162.7
Absolute (%)	-22.2	-29.2	-35.5
Rel market (%)	-17.2	-30.3	-20.9
Rel sector (%)	-17.3	-20.1	-15.9



Market capitalisation
E£10.49bn (€1.23bn)

Average (12M) daily turnover
E£8.75m (€1.11m)

Sector: EGX30 Telecoms
RIC: EMOB.CA, EMOB EY
Priced E£104.95 at close 27 Jul 2011.
Source: Bloomberg

Mobinil posted weak 2Q11 results, with a net loss of E£108.5m. Management blamed the new tax regime for the loss. We reduce our FY11 earnings forecast and cut our target price to E£124. We reiterate our Buy rating.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (E£m)	10,807	10,576	10,575	10,908	11,220
EBITDA (E£m)	5,260	4,554	3,793 ▼	4,036	4,207
Reported net profit (E£m)	2,038	1,365	343.4 ▼	856.8 ▼	1,147 ▼
Normalised net profit (E£m)	2,038	1,365	343.4 ▼	856.8 ▼	1,147 ▼
Normalised EPS (E£)	20.38	13.65	3.43 ▼	8.57 ▼	11.47 ▼
Dividend per share (E£)	7.50	9.19	0.00 ▼	5.14 ▼	9.18 ▼
Dividend yield (%)	7.15	8.76	0.00	4.90	8.75
Normalised PE (x)	5.15	7.69	30.56	12.25	9.15
EV/EBITDA (x)	2.79	3.71	4.41	4.11	3.70
EV/invested capital (x)	1.87	1.60	1.75	1.61	1.57
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%. year to Dec, fully diluted
Accounting standard: Local GAAP
Source: Company data, Rasmala forecasts

2Q11 revenues in line with our forecasts; EBITDA slightly below our expectations

Mobinil's consolidated revenues rose 7.7% qoq and 3.5% yoy to E£ 2,617m in 2Q11, leading to total revenues of E£5,047m for 1H11 (down 0.6% vs 1HFY10). 2Q11 revenues were in line with our forecast of E£2,644m. The EBITDA margin of 36% in 2Q11 equates to E£926m and was well below our forecast of 40%, leading to a 10% difference between our EBITDA forecast of E£1,055m and the reported figure.

Bottom line misses expectations on account of one-time new tax regime application

If we do not apply the new tax regime, Mobinil's 2Q11 consolidated net profit would have been E£80m, reflecting an increase of 252.7% over 1Q11. This amounts to net profit of E£103m (down 86% vs 1H10) in 1H11. However, after applying the new tax regime, the company saw a loss of E£108m in 2Q11 and E£86m (down 111.7% vs 1HFY10) in 1HFY11. The 2Q11 net figure is far below our expectations of a net profit of E£379m and the Bloomberg consensus estimate of E£240m.

We reduce our target price to E£124.0 from E£172.0; maintain Buy

Management views the loss in 2Q11 as a one-off, non-cash hit to the net profit before tax given that the company provided for 25% of its deferred tax liability and a retroactive 25% corporate tax for all of 1H11. Given Mobinil's 2Q11 results, we reduce our EBITDA forecast 6% for FY11 and adjust our net profit forecast to factor in the new impact, which included a one-off hit amounting to E£234m. Given that Mobinil resumed its capex spending in 2Q11, we raise our capex forecast for FY11 33% to E£2bn from E£1.5bn. We cut our target price for Mobinil to E£124 from E£172 and reiterate our Buy rating.

Analyst

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Takeaways

We slightly reduce our EBITDA forecasts to better reflect the current competitive environment and we adjust our net profit forecasts across the board to factor in the new tax impact.

Table 1 : Key highlights of 2Q11 results

(E£m)	2Q11	2Q10	Growth	2Q11F	Variance
Revenue	2,618	2,530	3.50%	2,644	-1%
EBITDA	953	1,097	-13%	1,055	-10%
EBITDA margin (%)	36%	43%		40%	
Net profit before tax and minority interest	122	488			
Net profit	-108	379	-129%	294	n/m

Source: Mobinil, Rasmala forecasts

- The new tax proposal, approved by the Council of Ministers on 31 May 2011, includes a hike in corporate income tax from 20% to 25% for taxable income exceeding E£10m. Furthermore, a withholding tax on dividend payments to non-resident shareholders. Once approved, these measures were effective from 1 July 2011.
- According to Mobinil's recent 2Q11 management conference call, the company took a one-off, non-cash hit on its 2Q11 net income before minority and taxes, amounting to about E£234m. This amount includes a 25% payment that equates to E£174m of its deferred tax liability, and the remaining E£60m is a payment for 1H11.
- Management did not recommend any interim dividend. That decision will be revisited at end-3Q11.
- Given the improved security conditions and a relatively stable political/social environment in Egypt, Mobinil resumed its capex programme in 2Q11. Total capex rose to E£405m in 2Q11 from E£199m in 1Q11. Hence, we raise our capex for FY11F to around E£2bn from E£1.5bn.

Table 2 : Forecast revisions

(E£m)	FY11F (new)	FY11F (old)	Variance	3Q11F	9M11
Revenue	10,575	10,575	0%	2,749	7,824
EBITDA	3793	4,018	-6%	990	2,789
EBITDA margin (%)	36%	38%		36%	36%
Net profit	343	1,035	n/m	255	169

Source: Rasmala forecasts

Table 3 : Mobinil DCF valuation

(E£m)	Free cash flow	PV of FCF
2011F	2,052	1,969
2012F	789	669
2013F	1,971	1,470
2014F	2,168	1,415
2015F	2,214	1,261
Terminal value	21,054	11,990
Enterprise value		18,773
Minus: net debt		6,383
Equity value		12,390
Number of shares		100
12-month fair value per share		124

Source: Rasmala forecasts

- Given Mobinil's 2Q11 results, we maintain our overall revenue forecasts for FY11, since we had no variance. We slightly reduce our FY11 EBITDA margin forecast to 36% from 38% to better reflect the current competitive environment. Beyond 2011, we also reduce our EBITDA forecast to an average of 37% from 38%. We also adjust our FY11 net profit forecast for Mobinil to reflect the one-off tax payment made in 2Q11, resulting from the 25% payment on its deferred tax liability and the new tax impact. To remain on the conservative side, we assume that there will be no dividend payments this year, given the latest guidance on dividends. Finally, given the resumption of Mobinil's capex programme in 2Q11, we increase our capex forecast 33% to around E£2bn for end-2011, from E£1.5bn previously. All in all, we reduce our target price to E£124.0 from E£172.0 and reiterate our Buy recommendation.
- Mobinil is currently trading at around E£100 per share, and we believe the market has already discounted the disappointing 2Q11 results. Hence, we believe the share price has reached the bottom, and, barring any additional disappointing news, we believe it should begin to improve soon.
- On the other hand, given that Egypt is in a transitional phase, there is a small possibility that the new tax regime that was enacted mid-year may be amended or even revoked once a permanent and final ministerial cabinet is elected. This in turn could result in partial or complete reversal of tax provisions.

Income statement

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	10807	10576	10575	10908	11220
Cost of sales	-2039	-2395	-3041	-3128	-3170
Operating costs	-3508	-3627	-3741	-3744	-3842
EBITDA	**5260**	**4554**	**3793**	**4036**	**4207**
DDA & Impairment (ex gw)	-1942	-2047	-2115	-2182	-2132
EBITA	**3318**	**2506**	**1678**	**1854**	**2076**
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	**3318**	**2506**	**1678**	**1854**	**2076**
Net interest	-688.0	-589.2	-719.1	-555.4	-369.9
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-56.7	-159.1	-105.7	-109.1	-112.2
Reported PTP	**2573**	**1758**	**852.9**	**1190**	**1594**
Taxation	-535.6	-392.7	-509.5	-333.2	-446.2
Minority interests	0.43	-0.07	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**2038**	**1365**	**343.4**	**856.8**	**1147**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	5260	4554	3793	4036	4207
Normalised PTP	2573	1758	852.9	1190	1594
Normalised net profit	**2038**	**1365**	**343.4**	**856.8**	**1147**

Source: Company data, Rasmala forecasts year to Dec

Balance sheet

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	813.9	610.5	600.0	540.0	486.0
Other current assets	1055	1504	1339	1300	1326
Tangible fixed assets	9800	10270	10270	10161	10049
Intang assets (incl gw)	2956	4328	4328	5078	5078
Oth non-curr assets	13.5	18.1	18.1	18.1	18.1
Total assets	**14640**	**16731**	**16555**	**17097**	**16957**
Short term debt (2)	559.4	205.8	818.4	1800	2228
Trade & oth current liab	5441	5329	6338	6676	6946
Long term debt (3)	4013	5968	5111	3556	2165
Oth non-current liab	947.5	1084	950.6	870.6	790.6
Total liabilities	**10961**	**12587**	**13217**	**12903**	**12129**
Total equity (incl min)	3679	4144	3338	4194	4828
Total liab & sh equity	**14640**	**16731**	**16555**	**17097**	**16957**
Net debt	4166	6383	6227	6074	5067

Source: Company data, Rasmala forecasts year ended Dec

Cash flow statement

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	5260	4554	3793	4036	4207
Change in working capital	-1575	-605.0	1096	17.3	341.3
Net interest (pd) / rec	688.0	-589.2	-719.1	-555.4	-369.9
Taxes paid	-330.9	-392.7	-509.5	-333.2	-446.2
Other oper cash items	0.00	0.00	0.00	0.00	0.00
Cash flow from ops (1)	**4042**	**2967**	**3660**	**3165**	**3733**
Capex (2)	-2241	-1840	-2115	-2823	-2020
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-123.6	-2405	-342.1	251.5	277.3
Cash flow from invest (3)	**-2365**	**-4245**	**-2457**	**-2571**	**-1742**
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-931.8	-889.1	0.00	-514.1	-917.9
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-767.2	1833	-318.9	-293.2	-1141
Cash flow from fin (5)	**-1699**	**943.5**	**-318.9**	**-807.2**	**-2059**
Forex & disc ops (6)	184.6	131.1	-200.0	-116.6	-116.6
Inc/(decr) cash (1+3+5+6)	**163.4**	**-203.4**	**683.8**	**-330.1**	**-184.9**
Equity FCF (1+2+4)	1801	1127	1545	342.2	1713

Source: Company data, Rasmala forecasts year to Dec

Standard ratios

Performance	MobiNil FY09A	FY10A	FY11F	FY12F	FY13F	Mobily FY11F	FY12F	FY13F	Telecom Egypt FY11F	FY12F	FY13F
Sales growth (%)	8.04	-2.14	-0.01	3.15	2.85	12.0	10.4	7.08	3.63	-2.95	2.14
EBITDA growth (%)	7.64	-13.4	-16.7	6.42	4.24	10.5	10.4	8.49	-4.78	-4.64	1.62
EBIT growth (%)	4.43	-24.5	-33.1	10.5	11.9	11.4	11.6	9.73	-3.22	-4.15	3.33
Normalised EPS growth (%)	3.44	-33.0	-74.8	149.5	33.9	12.2	13.1	10.9	-8.89	-3.49	2.00
EBITDA margin (%)	48.7	43.1	35.9	37.0	37.5	38.0	38.0	38.5	45.5	44.7	44.5
EBIT margin (%)	30.7	23.7	15.9	17.0	18.5	27.1	27.3	28.0	23.7	23.4	23.7
Net profit margin (%)	18.9	12.9	3.25	7.85	10.2	26.4	27.0	27.9	28.2	28.0	28.0
Return on avg assets (%)	18.3	11.7	5.52	7.73	8.48	14.0	14.7	15.3	9.47	9.04	9.16
Return on avg equity (%)	68.9	34.9	9.18	22.7	25.4	27.4	25.8	24.2	10.6	10.1	10.1
ROIC (%)	37.2	25.6	12.7	15.5	16.2	21.6	25.4	24.7	8.49	8.15	8.66
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
					year to Dec			year to Dec			year to Dec
Valuation											
EV/sales (x)	1.36	1.60	1.58	1.52	1.39	2.24	1.98	1.80	2.02	1.99	1.91
EV/EBITDA (x)	2.79	3.71	4.41	4.11	3.70	5.90	5.20	4.67	4.45	4.45	4.29
EV/EBITDA @ tgt price (x)	3.15	4.12	4.91	4.58	4.15	8.10	7.19	6.51	6.06	6.14	5.96
EV/EBIT (x)	4.42	6.73	9.97	8.94	7.50	8.29	7.23	6.42	8.52	8.48	8.05
EV/invested capital (x)	1.87	1.60	1.75	1.61	1.57	1.93	1.67	1.46	0.91	0.89	0.87
Price/book value (x)	2.85	2.53	3.14	2.50	2.17	2.03	1.70	1.45	0.92	0.91	0.90
Equity FCF yield (%)	17.2	10.7	14.7	3.26	16.3	9.36	8.40	9.48	13.5	15.3	13.3
Normalised PE (x)	5.15	7.69	30.56	12.25	9.15	8.11	7.17	6.47	8.81	9.13	8.95
Norm PE @ tgt price (x)	6.08	9.08	36.1	14.5	10.8	11.3	9.98	9.00	11.4	11.8	11.6
Dividend yield (%)	7.15	8.76	0.00	4.90	8.75	4.32	5.58	6.96	9.65	9.86	10.1
					year to Dec			year to Dec			year to Dec

Per share data	FY09A	FY10A	FY11F	FY12F	FY13F	Solvency	FY09A	FY10A	FY11F	FY12F	FY13F
Tot adj dil sh, ave (m)	100.0	100.0	100.0	100.0	100.0	Net debt to equity (%)	113.3	154.0	186.6	144.8	105.0
Reported EPS (EGP)	20.38	13.65	3.43	8.57	11.47	Net debt to tot ass (%)	28.5	38.1	37.6	35.5	29.9
Normalised EPS (EGP)	20.38	13.65	3.43	8.57	11.47	Net debt to EBITDA	0.79	1.40	1.64	1.51	1.20
Dividend per share (EGP)	7.50	9.19	0.00	5.14	9.18	Current ratio (x)	0.31	0.38	0.27	0.22	0.20
Equity FCF per share (EGP)	18.0	11.3	15.4	3.42	17.1	Operating CF int cov (x)	-5.36	6.70	6.80	7.30	12.3
Book value per sh (EGP)	36.8	41.5	33.4	42.0	48.3	Dividend cover (x)	2.72	1.49	0.00	1.67	1.25
					year to Dec						year to Dec

Priced as follows: EMOB.CA - E£104.95; 7020.SE - SR54.75; ETEL.CA - E£15.56
Source: Company data, Rasmala forecasts

Mobinil DCF valuation

(E£m)	Free cash flow	PV of FCF
2011F	2,052	1,969
2012F	789	669
2013F	1,971	1,470
2014F	2,168	1,415
2015F	2,214	1,261
Terminal value	21,054	11,990
Enterprise value		18,773
Minus: net debt		6,383
Equity value		12,390
Number of shares		100
12-month fair value per share		124

Source: Rasmala forecasts

Company description

Buy

The Egyptian Company for Mobile Services (ECMS) - Mobinil, Egypt's leading wireless telecom operator, was established in 1998 through a strategic partnership between three major telecom companies - France Telecom, Orascom Telecom, and Motorola. The company's ownership underwent a structural change after the exit of Motorola in 2001 and the transfer of France Telecom's holding to Orange Telecom. Mobinil's strategy of strengthening its technology alliances with major telecom players such as Alcatel and Motorola facilitated the launch of services like Mobinil Life (GPRS) and Mobinil Business Solutions (Customized Solutions for Business). Mobinil was the first to establish roaming agreements with operators in many countries, including those in North and South America. Starting from September 1st, 2008, Mobinil upgraded and its network infrastructure to offer 3G services.

Price relative to sector

Strategic analysis

Average SWOT company score: 4

Strengths — 4

Mobinil is Egypt's leading wireless telecom operator in terms of subscriber market share.

Weaknesses — 3

The main concern is a price war with Vodafone Egypt and Etisalat Egypt, which puts margins and ARPU levels under pressure.

Opportunities — 4

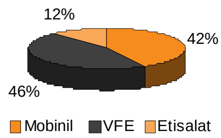
Mobinil has considerable opportunities in the provision of mobile banking services and significant potential to capitalise on the promising mobile broadband market in Egypt in the long term.

Threats — 4

There is a threat the Egyptian NTRA may license a fourth mobile operator.

Scoring range is 1-5 (high score is good)

FY11 market share



Source: Rasmala estimates

Market data

Headquarters
Nile City Tower, 2005C Cornishe Al Nil, Ramlet Boulaq, Cairo, Egypt

Website
www.mobinil.com

Shares in issue
100.0m

Freefloat
27%

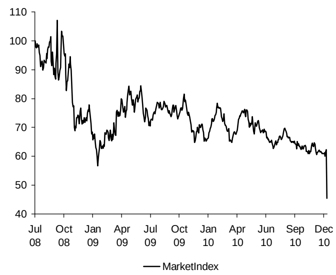
Majority shareholders
France Telecom (36%), Orascom Telecom (35%)

Sector view: Egypt

MENA markets are showing characteristics of a textbook case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher, resulting in a real estate bubble that has had a negative impact on speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation of RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The sector view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Sector rel to M East & Africa



Competitive position

Average competitive score: 3+

Supplier power — 4+

Mobinil is not overly reliant on any one key supplier.

Barriers to entry — 4+

With high barriers to entry in the telecom industry, we do not foresee a significant number of licences being offered to entrants to this market.

Customer power — 2+

Customers in Egypt have alternative operators in Vodafone Egypt and Etisalat Egypt.

Substitute products — 4+

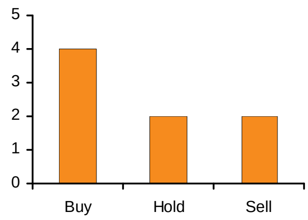
There are very few substitute products for mobile voice and broadband.

Rivalry — 3-

The company's main competitors are Vodafone and Etisalat Egypt.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Mobinil (RIC: EMOB.CA, Rec: Buy, CP: E£104.95, TP: E£124.00): To calculate our target price, we have used DCF valuation. The main downside risks includes current political instability and that pricing and competition could be fiercer than expected, leading to downwards pressure on EBITDA margins.

Disclaimer